THE
FINANCIAL PROBLEM:

ITS RELATION TO

LABOR REFORM AND PROSPERITY.

THE PRINCIPLES OF MONETARY SCIENCE,

DEMONSTRATING THE

Abolition of Interest to be Unavoidable.

BY

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AUTHOR OF "CITIZEN'S MONEY."

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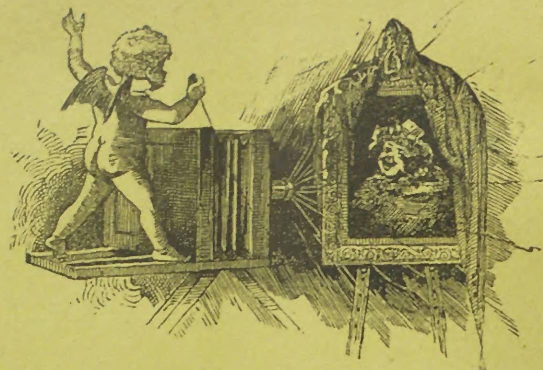

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PREFACE TO THIRD EDITION.

Many years ago while lecturing and canvassing in the interests of Labor Reform, and regarding financial reform as indispensably the initiative step towards any real progress in that direction, the author advocated the establishment of Mutual Banks of issue in order to abolish interest; and the utilization of other products of labor besides gold and silver as a basis for the issue of paper money, in order to obtain a surplus of capital, instead of a surplus of labor, as we have at present. But conflicting financial creeds revealed the necessity for scientific formula upon which to base the true or correct system, and as diligent search for it failed to discover any successful effort, while despairing of accomplishing so important a task, the writer nevertheless made the attempt. How well he has succeeded is for others to judge. In 1879, the Murray Hill Publishing Company issued a pamphlet entitled, "The Abolition of Interest, a Simple Problem," embodying in a condensed form what progress had been made up to that time. In the second edition, the title was changed. The present is a third edition. It is sincerely hoped that it may, at least, contribute in some measure to the solution of the great questions that are herein discussed, and thus solve the problem of co-operation, which must ultimately take the place of all government.*

I have refrained from quoting writers on this subject as entirely beyond the purpose of this essay. As an independent writer, I have not sought authority for truth, but truth for authority. Wherein I differ from previous writers may be of interest to others, it is of little consequence to me. My aim has been to discover the cause of our failure to realize what was so confidently hoped for in the establishment of this republic—the end of tyranny.

THE AUTHOR.

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* Government means coercion. In co-operation there is no compulsion—what "government" there is is SELF-IMPOSED.

PREFACE TO FIRST EDITION.

To state, that interest * for money loaned on good security is irrational, and that its abolition is not dependent upon philanthropic motive, but upon business principle, and therefore unavoidable, is to either startle the "civilized" world or else to evoke ridicule. To state that savings banks are economic absurdities, and that history gives no greater evidence of man's folly than in their establishment, is to become not only the laughing-stock of superficial thinkers, but to be regarded as *non compos mentis* by "learned" writers on political economy. Of course we do not court, neither do we fear these results. They do not constitute arguments. They are the result of a firm belief in accepted views of the nature and office of money, and of the laws of value. It remains to be seen how long error upon this subject will remain unassailed, while mankind is making rapid progress in other directions.

To those who will further extend to us the courtesy of their attention, we would say: The proof that interest upon money loaned on good security is irrational, is the fact that good security is wealth, and that what the borrower obtains is merely something which enables him to avail himself of the use of his wealth as capital, without cutting it up into small pieces, as is done with the wealth consisting of the metals used as money, but which in his case is impossible. The banker LENDS HIS CREDIT, and the borrower PLEDGES HIS WEALTH; THE BANKER BEING FAR MORE SECURE THAN THE HOLDER OF THE BANKER'S PAPER. The banker TAKES PAY FOR THE USE OF CAPITAL, although he FURNISHES NONE; for the capital (wealth) is FURNISHED BY THE BORROWER. The banker, therefore, renders no more service to the borrower than he would if, both using in every way the same kind of spectacles, the borrower should hand his to the banker, while he borrowed the banker's for his own use.

But it is not our intention to enlarge here upon the subject

* Speculative interest, or that which exceeds cost, is here referred to.

of our essay. What we propose is not new; it has long been known to a few, who, when we hear the unsound doctrines of those who want an exclusive government money, and the fallacies of "specie basis," wonder how long we shall have to wait before WE get a hearing. We can only say in conclusion, that the incompatibility of present money systems, with the requirements of modern progress, is a guarantee of their speedy overthrow, by the establishment of a Money System in which speculative interests will have no part.

THE AUTHOR.

INTRODUCTION.

We are sometimes told that we can not change human nature. We are not trying to change human nature. It is their mistake, not ours, in attributing the evils of society to manifestations of human nature, and therefore unavoidable. The evils we complain of are the consequences of invaded rights. Protect those rights from invasion, and the evils will disappear.

A mother's love for her child, or the individual's desire to surround himself with the comforts of life, and his unremitting efforts to accomplish it, are manifestations of human nature. But it is also human nature to protest against, and forcibly prevent robbery. If you live in a small country village and your house is invaded and your property carried away without your consent, you resist the invader (unless it is government levying a tax on you); if superior force is used, you call for help and citizens come and rescue your property. If others rights are invaded in like manner, you hold a meeting to adopt measures for self-protection; each one volunteering his share of the labor, or cost of such protection. This is co-operation, not government.

The banking institutions of large cities, in order to facilitate the transaction of business that they may have with each other during the day, establish an office at a central point called a Clearing House, where a representative of each bank meet at a fixed hour of the day. This is mutualism or co-operation.

But when government interferes with production or exchange of products under ANY PRETEXT, and, notwithstanding the open protest of many citizens, levies taxes on each one, and compels some to bear arms against their wish, to carry out and enforce such interference; this is not co-operation, it is coercion, it is not SELF-IMPOSED GOVERNMENT, it is GOVERNMENT BY FORCE, it is tyranny, it is invasion of the rights of the individual.

Why we demand that all restrictions, which interfere with

free banking* and free exchange of service or products shall be removed, is because the prime factor in human happiness is existence, and the prime factor in existence is to supply your own wants. If, in your effort to do this, you are restricted, you can not attain happiness. Hence, the removal of all restrictions on production, or the free exchange of service or products, is indispensable to human happiness, whether that restriction be in the form of a tax on the products, in the methods of furnishing the medium of exchange or in the amount furnished. To deny this is to deny the right to associate or co-operate for mutual good!

Mature thinkers on these subjects know that to co-operate or associate to lessen the burdens of life, we must have freedom to act. Majority governments are no more infallible than autocratic governments. It is patient, unceasing experiment alone that can teach us better ways. Hence, we must persistently work for, and patiently await the triumph of reason.

* It is often stated by persons who ought to know better, that free banking prevailed previous and up to the late war. It is unfortunate, but true, that in nearly every case the evils we endure are attributed to other than the right cause. Wild-cat banking then, as now, results from restriction, not liberty. Banking has ever been under the supervision of the State. When the paper money of a bank depreciated or a bank failed previous to federal control it was called "wild-cat" banking; when a bank fails now in spite of federal supervision it is called —— what? What is it but wild-cat banking? That the loss to depositors by failures of National Banks has exceeded a million dollars a year for the last four years proves that federal control is not a remedy.

THE RELATION OF FINANCE TO LABOR REFORM AND PERPETUAL PROSPERITY.

All through the countless diversity of human effort; industrial and agricultural processes and methods; systems of transportation and travel, education and the treatment of the sick—all are subject to the modifications which our better knowledge and experience dictate; finance alone resists the spirit of progress, and time-honored custom holds its sway, though millions perish under its relentless grasp.

In canvassing this vastly important subject, its history, past and present experience, the logic of events, the pressing needs of civilization and the demands of justice, I find no explanation to existing usage, save chronic error; and the various remedies proposed but reveal the chaotic condition in which the question presents itself to the public mind.

In the absence of a correct solution there can be no successful effort to reform; but when that solution comes, effort will be successful and reform will be speedy and effectual.

There can be no question as to the honesty of purpose on the part of a sufficient number to defend what is right and just, and when an appeal is made that can establish itself on these grounds, the front lines will be covered and the best talent will be available.

The great need of to-day is reform, not "social" or "political," but a reform that shall change the whole structure of human society—a reform that shall abolish poverty and initiate an era of prosperity, in which morality CAN BE POSSIBLE, for no society can be moral while a majority of its members are suffering all the discomforts and most of the horrors of poverty.

In the light of the knowledge we possess of sanitary measures and hygienic living, what becomes of our boasted civilization? Why preach and print so much about the rules of health, the necessity of ventilation, drainage and cleanliness, while the great majority of mankind are doomed in their poverty to be

filthy, breathe disease in the polluted air of cesspools and suffocate in houses they pay rent for, but can not reform. Do we abhor filth, ignorance and injustice? Then let us abolish poverty —put an end to financial systems that cause it as famine causes death. To confess our inability to do this, is unworthy of a progressive age. To leave to posterity an inheritance so shameful, and seek refuge from responsibility behind a supposed ignorance of its cause, is unworthy of those who labor under the banner of reform, inconsistent with the spirit of their teachings, and defeats the objects they wish to accomplish.

To say that most men and women must forever toil in a condition less favorable than that of the common brute! That nature, with the magnitude of its inexhaustible supply, its countless and untold resources and the prodigality of its productions, has left man, the highest and grandest of all its achievements, to be the victim of his own necessities! That it has imposed on him the conditions under which he shall live, and has failed to provide the means of fulfilling those conditions! That it has said to ALL, eat, or ye shall surely die; yet not have provided for all! That it inflicts the penalty of death for violating its health laws, yet rendered compliance with those laws impossible!

Yet it is not in appeals to humanity, nor in legal enactments that we must look for relief. It is not upon the valor or fury of an armed mob—legal or otherwise—that we must stake the issne; so great a reform can not rest upon so fickle a base, but upon the fact that all reforms spring from an intelligent sense of wrong, or greater economy in proposed methods.

If we would reform labor, we must reform capital. We must institute a most searching investigation into the subject of finance —that main branch of economic science which has ever been used by crafty and greedy men to acquire wealth and power at the expense of useful people, and we must popularize correct notions in order that we may eliminate the vicious features that these men make use of, and by which they accomplish their ends.

That there is a profound sense of wrong in regard to the present banking system, will hardly be denied. That there is greater economy and justice in the one we propose, it is my purpose to demonstrate.

I hold it to be the duty of those who have arrived at any definite conclusions on matters of public economy, to make known the result of their research, and it is with a view of fulfilling this duty that this work is published.

It is now sixteen years since my attention was first called to this subject. During the period that has intervened I have devoted much time to its study, and, I hope, succeeded in formulating the correct principles of monetary science, and thus refute prevailing erroneous and unsound doctrines maintained by money-lenders and their associates who profit by existing institutions and systems. This will aid us to understand the true nature of exchange; or, in other words, what constitutes equity in the exchange of service or products; for in this inheres the whole secret of the labor problem, that since you can not take something from nothing, and, since all things are produced by labor,* what capital gains, labor loses. By what methods and how to remedy it, is the purpose of this essay to explain.

I shall commence by calling the reader's attention to a preliminary argument in reference to the specie basis system of banking.

In order that we may be understood, we wish it to be borne in mind, that whenever we speak of interest, it is always in connection with money borrowed on good security; a business transaction in which no risk is supposed to be incurred, and not in connection with transactions that partake more or less of the nature of a favor, and in which more or less risk is incurred. The one we will call *real credit;* the other, *personal credit.* With the latter we have nothing at all to do.

We will now suppose two individuals equally wealthy; the wealth of one to consist of the metals, gold and silver, and that of the other, of buildings or any other product of labor.

What, we ask, are the facilities afforded by this financial system for the obtaining of real credit on the part of these two individuals? If they possess an equal amount of wealth are they not equally wealthy? Do they not stand on an equal financial footing, and are they not equally entitled to *real credit?*

In the specie basis system of banking, as in others, this right

*See definition of wealth, page 17

to *real credit* is utterly ignored; first, by government coining and "fixing" the value of gold or silver, or both, or, in other words, making the coin legal tender; second, by government giving the owners of this coin the EXCLUSIVE PRIVILEGE* to issue paper money, not only to the extent of this "fixed" value of their coin, but to the extent of three times as much. What right, we ask, has government to "fix" the value of any product of labor, or make it legal tender, authorize the issue of paper money to the extent of three times the amount of this legal tender coin, and prohibit the issue of paper money by the owners of any other products? If government has the right to "fix" the value of one product, then it has the right to "fix" the value of all products.

No, it is a fundamental error in economic science to admit the right of the State to "fix" the value of any product, inasmuch as it exempts it from the effects of supply and demand to which all other products are subject; and is, therefore, a *privilege* which infringes on the rights of owners of all other products.

But it is a far graver error for the State to suppose it has the right to restrict the issue of paper money, for this is attacking the rights of owners of property to a much greater extent. If one can not use property to the best advantage, he is restricted in its use. One of the uses of property is to obtain real credit, as is done by the owner of coin when they issue paper money to the extent of three, and even ten times the amount of their coin, only, that in this case they get from three to ten times the amount of credit they are entitled to, and thus draw interest on what they owe. If owners of other products may not issue paper money to obtain real credit, they must borrow from those who do issue. Now, inasmuch as this involves the payment of interest largely in excess of what it costs to print and issue paper money, he pays for something he does not get; and as the public, who take all the risk, and should therefore be furnished ample security, derive none from banks which pledge only one-third or one-tenth the amount in coin, which, by the way, they retain in their own possession while they requirè of borrowers a perfect security in the form of a mortgage or pledge of some product which far exceeds in value the amount of paper money loaned

*A privilege to one is the same thing as the suppression of the rights of the rest, and government is a USURPER when it attempts it.

thereon, the issue should be made directly on the property of the borrower; he would then get his real credit at cost, the same as the owners of coin do; and the pledge should be made to the public; it would then be relieved of the risk it takes.

To prohibit this, *under whatever pretext*, is to restrict the citizen in his right to the use of his property. To restrict the issue of paper money to any one or two products, even though it be increased many times more than the amount of such product, is to reduce the amount of paper money to the caprice or interests of those who own and control such product, besides compelling the public to take the risk of bad faith, bad management, or both, and allowing such owners more real credit than they are entitled to; and as paper money is the instrument with which exchanges of the products of labor are effected, both *real credit* and *exchanges of these products* are *controlled by those who issue the paper money*.

Have I not demonstrated successfully that such a system of banking is unjust, in that it gives an exclusive privilege to the banker? And have I not equally demonstrated that such a system of banking is unsafe, in that it furnishes no security to the holder of the paper money issued by such banks?

I will now show that such a system of banking is too costly. If we ascertain from time to time the total wealth existing in any country, it is easy to determine the actual annual rate of increase, by dividing the intervening time into years, and ascertain the percentage corresponding to one year, by a little calculation. Thus the United States census, for 1860, gives the assessed valuation of the

Total real and personal wealth as	$12,084,560,005
The same for 1870, - - - -	14,187,986,732
The same for 1880, - - - -	16,902,993,543

The rate of increase per annum, for the ten years ending 1870, is less than 2½ per cent. The rate of increase per annum, for the ten years ending 1880, is less than three per cent. We presume that the average rate of interest in this country is not less than 7 or 8 per cent.; if it is seven, it is nearly three times as much as the average increase of wealth.

Now, if the average increase of wealth, per annum, in the

United States is 2½ per cent., and the average rate of interest is 7 per cent., where does the 4½ per cent. come from, which money-lenders demand for the use of their money, in excess of the said average? And since, not only money-lenders, but all capitalists, demand a similar rate for the use of their capital, our dilemma increases. By what process of arithmetic can the situation be explained? If all capitalists and money-lenders were to demand and receive but 2½ per cent., all those who have no capital, but who earn their living by their labor, could not accumulate, and at the end of each year would find that all that they had appropriated would be what they had consumed. But the fact is that most capitalists and money-lenders do receive a much higher rate, and some large fortunes have accumulated so rapidly, that the percentage of increase can only be expressed by hundreds. Can it be explained by supposing that so large an amount of capital is idle, or receives no interest, and that another large amount receives so small an interest as to account for the difference between the average increase of wealth, and all the varying rates of interest to capitalists and money-lenders from that which exceeds the average increase of wealth, to that represented by the most rapid accumulation? May we not venture to introduce here, also, the item of failures as legitimately connected with this phenomenon?

Let us imagine a great balance sheet:

ON THE DEBIT SIDE WE WOULD FIND:	ON THE CREDIT SIDE WE WOULD FIND:
Idle Capital,	
Low Rates of Interest,	High Rates of Interest,
No Interest,	
Partial Loss of Capital,	Rapid Accumulation,
Total Loss of Capital,	
Failures.	Immense Fortunes.

In other words, if there were no failures, there could be no rapid accumulation such as we see. For all capital that increased at the rate of 5 per cent. there would have to be an equal amount that did not increase at all; for all capital that increased at the rate of 10 per cent. there would have to be three times that amount that did not increase at all; for all capital that increased

at the rate of 20 per cent. there would have to be seven times that amount that did not increase at all; for all capital that increased at the rate of 50 per cent. there would have to be nineteen times as much that did not increase, and so on in that proportion, otherwise the average would exceed 2½ per cent., which is not the case. Think then of the failures that MUST occur when you contemplate the vast accumulations of the Vanderbilts, the Goulds, the MacKays, and all the other millionaires you have created within the last twenty years.

Let me still further reinforce this idea by stating it in another way. The present social system may be said to be strangling itself to death. The annual interest charge exceeding the net annual increase in labor products; or, in other words, labor produced more wealth during the year than is actually consumed and there remains a surplus, but this surplus is not sufficient to meet the amount of interest demanded by the capitalists for the use of their capital; hence, as I have already stated, failures are inseparable from the system.

But what the ultimate result must be, can only be comprehended when you realize that not only is this interest being compounded year after year by the old method of reinvesting the interest, but it is greatly accelerated by the new method of dividends on the water as well as on the stock, and by rents on fictitious land "values," etc., etc.

If such desolation—such annihilation of human effort, and slaughter of human hopes, is the result, is it not a matter of self-interest to all concerned to put an end to such barbarism?—invent a system that has common sense as well as justice, or cease to associate our generation with these terms—blot them out from the vocabulary, and substitute in their place "hypocrisy" and "fraud."

Is further argument necessary? Need we go any deeper into the subject to show that a rate of interest, even equal to the average rate of increase of wealth, is incompatible with a just distribution of the same? For with such a rate of interest money-lenders and capitalists will absorb all the increase, and LABOR, the only producer of wealth, can not participate in the enjoyment of its own offspring.

Therefore, as the specie-basis system of banking, as readopted in this country, will not materially change the rate of interest, much less reduce it below the average rate at which wealth increases, we must decide that, in addition to its other defects, it is out of all proportion to the economy required of *institutions to furnish real credit.*

But we have still another reason for rejecting this system. If, in the future, gold and silver cease to be mined from any cause, or the supply greatly reduced, and such large quantities are consumed in the arts and trades as to constantly diminish the amount, what would become of the system based on these metals? We may finally conclude to dispense with a "measure of value," or a "standard of value," even if such a thing ever existed. But can we have a system of money based upon silver and gold without any such metals to base it on? Who will venture to affirm that fifty years from now the amount of gold and silver coin in existence will not be reduced to one-half or one fourth its present volume, or that the world's commerce will not be double what it is now? And if both take place, will the advocates of specie-basis still insist that we must adhere to their pet system?

But, suppose, on the other hand, that by new discoveries of vast quantities of the "precious" metals, and greater facilities and economy in process of reduction, they become as abundant as copper or lead, is their market or exchangeable value to be kept up by legislation? Or are we to have silver quarters as big as saucers and gold dollars that weigh an ounce? And if so, how are we to manage the loss that such changes entail?

Need we extend this argument to show that there is no science in a system that may be deprived of its base, and therefore impracticable? Can the impracticable be scientific? If the term science can be applied to a money system, it should be because it is in every way practicable, not only to-day, but for all time; that it furnishes a money that fulfills the office or functions required of money perfectly; that it is reliable absolutely at all times, portable and sub-divisable to the greatest extent, and obtainable at the lowest possible cost.

We must decide, therefore, that instead of being in accord with scientific principles, it is a scheme to enrich bankers and their associates at the expense of the rest of mankind.

That it affords no security to the holders of its paper money.

That it is the worst of all monopolies, because it is the basis of all monopolies.

That it limits the circulating medium to a fraction of what is required to develop the resources of nature and transact business for cash, instead of on the credit system at present unavoidable, by excluding as a basis for the issue of paper money, all wealth except gold and silver.

That it absorbs all the increase of wealth through compound high rates of interest, thus directly creating pauperism and indirectly misery and crime.

That it corrupts and vitiates integrity and morality in all transactions, and perverts industry and commerce into a species of piracy.

We will now pay our respects to the National Banking system, which is in vogue in this country.

This system is so well known that a description of it will be unnecessary. It will be well, however, to refer to the cause that produced the change in the banking system of the country, converting the old State banks into National banks.

It is a well-known fact in political economy that you can increase the market value of an article by creating a demand for it and controlling the supply. How did the bankers create a demand for United States bonds after they had purchased most of them of government at a large discount? They established the National Banks and made the bonds the basis for the issue of paper money, and at the same time passed a law that any individual, corporation or company that should issue notes, bills, checks or anything that could circulate as money, should pay a tax of 10 per cent. on such issue, except National Banks, hence, the change.

So delusive has been the idea of safety under a republican form of government, so forgetful the people that eternal vigilance is the price of liberty, and so crafty and successful the tyrant, whether in the garb of a republican or disguised as a democrat, that we can no longer boast of this as the home of liberty. If you have forgotten what constitutes democracy, read the Declaration of Independence and refresh your memories

with those glorious sentiments. Call up the honored dead and ask them if the institutions of to-day are what they had expected or hoped to establish. Beaten on the battle-field, aristocracy has appeared in a new form. It is not now taxation through the tax-gatherer only, to support royalty; but it is taxation in all the various forms, which monopolies are able to impose through their control of the currency.

Suppose the working people had controlled legislation at Washington, and suppose that instead of the bonded system with its twin parasite the National Bank, they should have established a scheme something on this order:

By prohibiting any building material being used except hand-made bricks. The bricks to be delivered as fast as made to duly appointed government officials, who should pay for them at a fixed high rate in paper money printed for that express purpose, and all other money, including gold and silver be prohibited by a law similar to the one which now protects the National Banks from competition. All duties on foreign goods to be paid in bricks, which, of course, could not be obtained except of government, and all bricks paid in this way to be used in constructing government buildings and other public works. The bricks received of makers to be disposed of to customers, and a certain proportion of the money paid in this way to be canceled and destroyed, unless it could be loaned on good security, at one per cent. per annum. The government to receive said money at par in all cases except duties on imports.

What would the gold bugs have said of such a project? They would have denounced it in unmeasured terms; pronounced it a "desecration of sacred rights and time-honored customs." Their patriotism for gold would have been aroused to such an extent, that they would have called upon their foreign allies to come over and help them "put down such communism."

And yet such a scheme would have contained more common sense, and been far less disastrous to the inhabitants of this country than what we have had to endure.

Such are our reasonings *a priori*, unbiased by superstition, prejudice or personal interests. We will now review the subject from the scientific point of view.

THE PRINCIPLES OF MONETARY SCIENCE.

The present essay is intended to show that there is a true and correct monetary system; that there is a Monetary Science; that monetary science defines the office or object and use, as well as the nature of money; and that our present, as well as all past monetary systems are as unscientific, and the popular views of money as incorrect as the notions entertained in regard to astronomy before the days of Copernicus.

As much of this comes of a misunderstanding of the definition of terms, in order to arrive at comprehensive views on this subject, I shall commence by giving the definitions of such terms as I shall make use of, and, in regard to the meaning of which, there exists a confusion of ideas.

The terms whose definitions I give, as I understand them, are as follows:

Wealth; Capital; Value; "Measure" or "Standard" of Value; Monetary Unit; Money, Circulating Medium; Usury; Cost; Barter.

WEALTH.

1. WEALTH.—There are two kinds of wealth, natural and artificial. Natural wealth is that which is the spontaneous product of nature, or in the production of which man has taken NO part. Artificial wealth is the product of man's labor, or in the production of which man HAS taken part. Wherever the term wealth simply is used in this essay, it is intended in every case to mean artificial wealth.

CAPITAL.

2. CAPITAL.—Capital is wealth that is employed in productive enterprise.

VALUE.

3. VALUE.—There are two kinds of value. There is what is commonly called "market value." The market value of an article is ordinarily determined by the exposure of that article for sale. Owing, however, to our false financial system, the market value

of products often depends very largely upon the "money market," whereas, when we come to correct monetary principles, the "money market" will have nothing to do with it. The other kind of value is constituted by the usefulness of an article. Thus the air we breathe is so valuable that we can not live without it, yet its market value is nothing. So with water (unless labor is bestowed upon it), it has no market value, yet to one dying of thirst, it is not easy to compute its value. Money, also, because it is not issued by scientific method, has, and until it is, will continue to have, two values. First, its exchangeable value; second, its value in procuring an income. It must be evident to any one of sound mind, that the fact that one has borrowed money without interest, will not affect its purchasing or exchangeable value; hence this exchangeable value must depend on something else than upon the amount of interest that money will bring, whereas the other value is entirely dependent upon its ability to draw interest. But when common sense enters the "money market," and abolishes speculative interest, this value must disappear; then the only value that money will have will be its purchasing power or exchangeable value.

MEASURE OR STANDARD OF VALUE.

3. Measure or Standard of Value.—There is a fatal misunderstanding in regard to this term, and almost all writers on the subject of finance appear to have fallen into an error. *There is no such thing as a "measure or standard of value."* Instead of saying, "gold" or "the gold dollar is the measure of value," we should say, THE DOLLAR IS THE MONETARY UNIT OR CONVENTIONAL MONETARY DENOMINANT. The fact that we can not express the value of an article, except by stating a quantity of some commodity, is proof that there is no fixed or permanent measure of value, for the (market) value of all commodities change with supply and demand, and the object "measured" is as much the "measurer" as the commodity by which it is "measured."* Value not being a substance nor occupying space, can not be reached by mathematics. The absurdity of this popular view of the "measure of value" is graphically illustrated in the Constitution of the United States in "conferring the power" upon Congress to "regulate the value of

* See page 28.

money," for neither Congress nor any other legislative body have any more power to regulate the value of money than they have to regulate the velocity of the wind, or the degrees of solar heat. So long as competition—supply and demand—regulate the market value of labor and products, it, and not legislation, controls the purchasing power of money.

MONETARY UNIT.

5. MONETARY UNIT.—I have already indicated the meaning of this term, and for reasons already stated, believe that the terms "measure of value" and "standard of value," should not be used, as they convey incorrect ideas of the functions of money, as well as in regard to the laws of value.

MONEY.

6. MONEY.—Circulating Medium. These two terms have about the same meaning. Money is a circulating medium, and a circulating medium is money.

Money can not properly be called wealth, although it is wealth to the extent of the market value of the material of which it is composed, as is the case when it is made of gold, silver, etc., but it is not wealth when it is made of paper, for the wealth contained in a paper dollar, or a thousand paper dollars, is too insignificant to be called wealth, or rather to warrant the statement that such money is wealth. Hence to call money wealth, is incorrect, for that would imply that *all* money is wealth, whereas, as I have already shown, some kinds of money is not wealth. Therefore, in defining money, I say, money is a representative of wealth; or, to state it more fully, money is the circulating medium; its office is to facilitate the exchange of the products of labor; its nature is a representative of wealth.

I do not expect opposition to my first two propositions, viz.: that money is the circulating medium, or that its office is to facilitate the exchange of the products of labor; but to my third proposition, viz.: that the definition of money which relates to its nature is NOT wealth, but a REPRESENTATIVE OF WEALTH, I antici pate opposition from a certain quarter. For instance, an opponent might argue that money is wealth, and attempt to prove it by the fact that the possessor of a million dollars, even in paper

money, is a wealthy individual. I do not deny this, yet it does not conflict with my definition. He is a wealthy individual, because he possesses the representative of one million dollars' worth of wealth, and can exchange it for wealth at any time. But to say that that individual is the *possessor* of wealth, would not be correct, for he is the possessor of wealth only to the extent of the market value of the paper stock contained in the said paper money. We can not too strongly urge the importance of recognizing this distinction; for, by so doing, we admit the fact that we do not increase wealth by issuing paper money; yet, by issuing paper money amply secured, we increase in the same proportion the available capital for the purpose of productive enterprise, and at the same time, as will be seen by the plan for Mutual Banks, destroy that which is the bane of all modern enterprise, usury!

USURY.

7. USURY.—The term usury is applied to that sum which is paid for the use of a larger sum. It is true, the word "interest" is now more commonly used, but this is because the former is somewhat odious, owing to the fact that modern legislation has "legalized" usury up to a certain extent; hence, it is now customary to regard usury beyond what is "allowed by law," as immoral, and call it "usury," while legal usury is politely called "interest," and regarded as acceptable morality. According to this philosophy, legislatures are the source of morality.

COST.

8. COST.—The term cost is meant by the present writer to denote the net expense of production, exclusive of any profit.

BARTER.

9. BARTER.—This term is given to that transaction which is an exchange of wealth for wealth, or one product of labor for another product of labor; such as a house for a farm, a watch for a horse; a pair of shoes for a hat, or all these for specie. Specie is a species of wealth; therefore, to purchase with specie is barter.

Having given definitions of the terms in regard to the mean

ing of which I might be misunderstood, will now proceed with our subject. My object being to prove that the money question is a subject of science, and that there are principles by which we can test the correctness of a money system, I will first state what those principles are and then test the correctness of prevailing systems by their application.

ESSENTIAL QUALITIES OF A SCIENTIFIC MONETARY SYSTEM.

PRINCIPLE NUMBER ONE.

Money being a representative of wealth, a money system must provide a sufficient volume and facilities to enable all wealth to be represented by money.

PRINCIPLE NUMBER TWO.

As interest for money loaned is not "compensation for the use of capital," the borrower possessing the capital (wealth), and needing but the representative (except in cases where money is loaned without security), a money system must provide for the loaning of this representative at cost.

PRINCIPLE NUMBER THREE.

As the holder of a bank bill or government note is not thereby the possessor of wealth, a money system must provide absolute security against loss to the holder of paper money.

The three foregoing principles constitute, in my judgment, the basis of a correct money system, and any system that does not fulfill their requirements, is defective, and fails to supply what is wanted, as their application to the following systems will show.

"SPECIE BASIS."

The system most popular with bankers is commonly called "hard cash," or "specie basis." That is to say, gold and silver form (almost) the only circulating medium, except bank bills, which are issued either by depositing an equal amount of coin as security, or in case an additional amount of bills are issued, this additional amount is otherwise "secured" by mortgages, railroad and other stocks and bonds, individual notes, etc., etc., etc. The amount in coin in all cases to be sufficient to satisfy the claims of such bill-holders as might (according to the law of chance. *only understood by bankers*) pre-

sent them at any one time for redemption, or, in other words, to be exchanged for coin.

In the first place, the system does not fulfill the requirements of principle No. 1, for all the gold and silver in the world is not adequate to represent the balance of wealth, and would still remain without a representative itself. For example, suppose the demand for money to be such as to induce all owners of buildings to seek money by mortgaging the said property, it is evident the amount would not be sufficient. But, suppose the circulating medium to be increased by the issue of more bank bills, securing the same by depositing the mortgages. Each additional issue would render it more and more difficult for the bank to "redeem on demand," until finally it would be an impossibility to meet even the ordinary demands upon the bank for coin.

In the second place, such money is not a representative of wealth, but, to the extent of the metals used, it is wealth itself, and therefore can not fulfill the requirements of principle No. 2.

In the third place, the system does not fulfill the requirements of principle No. 3, for, aside from the notorious fact that the history of such banks is a history of failures, these banks promise to do what their managers know is an impossibility, for the history of banking shows that no bank could ever redeem all its notes on demand at any one time, having issued at least three dollars in paper to every silver or gold dollar on deposit. Again, such banks do not afford that security demanded by our principle No. 3, from the fact that the only "security" is in the hands of the bankers themselves.

It is evident from the foregoing that the specie-basis system of money is unscientific. It does not possess any of the qualities demanded by monetary science.

GREENBACKS.

We will now consider the paper money known as the "greenback." Greenbacks are notes issued by the United States government. They are promises to pay. When first issued the government made the duties on imports payable in gold only. This action on the part of the *issuer of the greenback* very naturally caused a premium to be demanded for gold. There being a

steady demand for it and the supply limited and controlled like any other commodity, its price advanced, and the purchasing power of the greenback correspondingly diminished. As soon as the government made the greenback receivable for ALL dues (including imports) its purchasing power became equal to that of coin money.

The greenback adopted as the only circulating medium as advocated by large numbers of people in the United States, does not fulfill the requirements of principle No. 1, for government issues of paper money—treasury certificates of service—at best could but represent the wealth created in the service rendered government, but could not represent wealth not so created.

It does not fulfill the requirements of principle No. 2, as owners of private wealth can not obtain it to represent their wealth AT COST.

It does not fulfill the requirements of principle No. 3, because holders of such paper "money" are not secured against loss, and the arbitrary issue of such enormous quantities would cause its depreciation.

With regard to the National Bank system, the reader will find it treated exhaustively in a pamphlet by the author, entitled Citizens' Money.

Having demonstrated, through the Principles of Monetary Science, the defects of prevailing banking systems and the utter inability of such institutions to fulfill the pressing needs of our progressive civilization, we call attention to the following system which does, and is destined to, supersede all others.

PLAN FOR THE MUTUAL BANK.

Col. Wm. B. Greene, of Boston, about forty years ago proposed the application of the mutual idea to banks of issue in order to abolish interest and increase the circulating medium in proportion to the demand for it.

The following is Col. Greene's plan for a Mutual Bank, with such alterations and additions as, in my humble judgment, will explain it more fully, and add to its usefulness and safety as a co-operative instrumentality:

1. The inhabitants, or any portion of the inhabitants, of any town or city, may organize themselves into a Mutual Banking Company.

2. The officers of a Mutual Bank should be a board of directors, an appraiser, a manager, a cashier, and a secretary.

3. Those who propose to become members should elect the appraiser and the board of directors, who should hold their office for one year.

4. The board of directors should first elect the manager, cashier and secretary, from among their number.

5. The manager, cashier and secretary should hold office until they resign, or are removed by the board of directors, who should require each to give bonds. They should be subject to, and not members of the board, nor participate in its meetings, except when called upon to do so; and the same rule should govern the appraiser.

6. The appraiser and members of the board may be removed at a general meeting of the members of the bank, and others elected to fill their places, of which due notice should be given.

7. Membership ceases when a member pays his notes to the bank, and none but members should be directors.

8. The board of directors should employ a secretary of its own, and a legal advisor, and fix the salary of the officers and employees.

9. The manager should manage the affairs of the bank, the cashier the usual duties, and the secretary should have charge

of all documents, see that all mortgages were duly recorded before notes are cashed by the bank, and keep an account of the printing and issue of bills.

10. Any person may become a member of the Mutual Banking Company, of any particular town or city, by pledging UNINCUMBERED IMPROVED REAL ESTATE, NEVER VACANT LANDS, or other first-class collateral situated in that town or city, or in its immediate neighborhood, to the bank.

11. The Mutual Bank should print (or have printed) paper money, with which to discount the mortgage notes of its members.

12. Every member, at the time his note is cashed by the bank, should bind himself and be bound in due legal form, to receive in payment of debts at par, and from all persons, the bills issued and to be issued by the bank.

13. Notes falling due may be renewed by the bank, subject to the modification which a new valuation may require, so that the note does not exceed two-thirds.

14. Any person may borrow the paper money of a Mutual Bank on his own note running twelve months (without indorsement), to an amount not to exceed two-thirds of the value of the collateral pledged by him.

15. The charge which the Mutual Bank should make for the loans, should be determined by, and if possible, not exceed the expenses of the institution, pro rata.*

16. No money should be loaned by the bank except on the above conditions.

17. Any member may have his property released from pledge, and be himself released from all obligations to the Mutual Bank, and to the holders of its bills as such, by paying his note or notes to the said bank.

18. The Mutual Bank shall receive none other than its own money, or that of similar institutions, except such coin money as the board of directors may designate, and this should be discounted one-half of one per cent.

* According to the report of the commissioners of savings banks of the State of Massachusetts, the average annual expenses of those institutions is less than three-tenths of one per cent. of the deposits, while their average dividends to depositors is over four per cent. per annum.

19. All Mutual Banks may enter into such arrangements with each other, as shall enable them to receive each other's bills.

20. The Mutual Bank should publish in one or more daily papers each day, a statement of its loans the day previous, describing the property mortgaged, giving the owner's name and its location, with the appraiser's value and the amount loaned on it. And also a statement of the notes paid, and mortgages canceled during the same period, which statements should be signed by the manager, cashier and secretary.

21. The Mutual Bank should exchange at any time, any of its own bills that are torn or worn for new ones without charge.

The foregoing plan for a bank of issue or bank to discount mortgage notes or notes secured by adequate collateral security, upon the idea of mutuality, and wherein the stockholder is dispensed with and usury is abolished is suggested after mature reflection; but the author will gladly accept any improvement that could be proved to be such. It is obvious, that all such property should be covered by insurance, payable to the bank. We would simply add that Mutual Insurance *can only be possible when usury is abolished;* then none other can exist, and such will afford the best protection that human institutions can furnish.

That this system of organizing credit is based upon our principles, must be evident to any one candid enough to examine it. The question remains then, are they principles? Or are they dogmas merely? The answer we must leave to the future.

That this plan will furnish real credit independent of any monied power, at cost, and thus materially help personal credit, seems evident to us.

The emancipation of borrowers-with-collateral, from a monied power who now control the circulating medium, will render financial crises impossible and perpetuate that prosperity which is destined to abolish poverty, and with it all the evils it is the cause of.

The Practicability of the Mutual Bank and the Utter Absurdity of the Idea of a "Measure" or "Standard" of Value Demonstrated by Simple Illustrations.

Let us suppose a community where there is only one bank, and that each individual in that community secures an account current by depositing collateral to a greater or less extent with the bank. Is it not clear that in such a system of payments, no money would be needed, every individual would pay by check; the accounts being adjusted by offsetting on the books of the bank; the *monetary unit* we call "dollar" answering the purpose of a conventional denominator or denominant. We will also suppose that this bank is conducted on the mutual plan, and therefore charges are made to cover cost only. Gold and silver bullion, like any suitable commodity, could be used as collateral, but no coin would be necessary and none would be used. It would therefore seem to be sufficiently clear that a unit to act as a measure or standard of value is but a fiction, a fetish. It is admitted that the proposed bank, for various reasons, would be an impracticable method of effecting exchanges, but the absence of a coin-unit-measure-standard would not be one of them. Not every one can have a bank account; the inconvenience of paying small amounts by checks as well as the uncertainty, in many instances, as to the acceptability of checks at the bank are insurmountable difficulties, but one can hardly contemplate the foregoing and at the same time conceive how the advocates of a coin basis to paper money would defend their theory of its necessity. It is not difficult to comprehend the nature of the error here fallen into.

A monetary unit (a conventional denominator or denominant) to facilitate the expressing of amounts in the realm of value, is, apparently, so similar in its function to that of the units employed in physics such as the inch, the pound, etc., especially as certain coin is made legal-tender, that the notion has become well-nigh universal that this monetary unit must be a definite quantity of some commodity just as the inch is a definite and unvarying length, or the pound is a definite and unvarying weight; but this notion is utterly devoid of reason.

As there is nothing definite or permanent in value a unit of value is a physical impossibility.

The monetary unit is as near a unit or measure of value as the "x" in an algebraic equation is a known quantity. You can ascertain the exchangeable value of a gold dollar in any commodity by inquiring the price of that commodity; so also you can find the quantity "x" by ciphering out the equation.

The value of the gold dollar varies with every change in market price, just as the quantity "x" differs with every change in the equation.

The gold dollar is a certain quantity of gold. It is not the gold, however, but the value of the gold that is supposed to do the measuring, and it is the value of the gold that is the uncertain quantity.

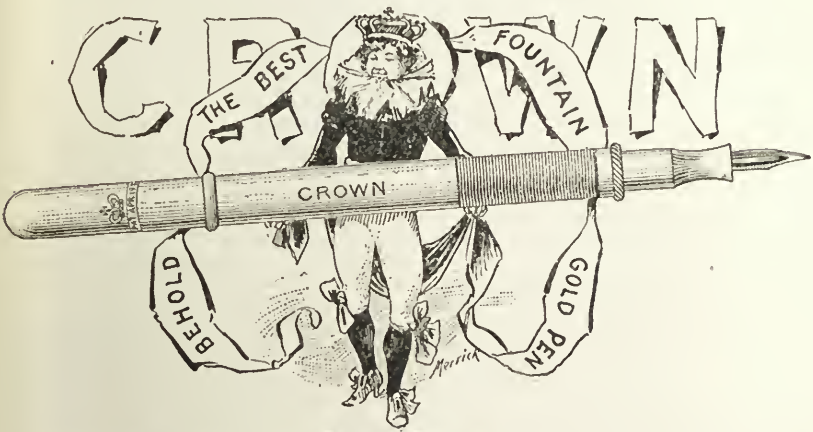
How can an uncertain quantity be a unit or measure? And if it is not a measure, what is the object of a coin basis? If it is answered that it is not a measure, but a "standard" of value, if by "standard" is meant denominant, then the use of the term "standard" is equivocal, and therefore sophistical or dishonest. If it is claimed that it is more than a denominant, there is no escaping the dilemma that confronts the paragram "measure."

When paper money is issued as proposed by the Mutual Bank Propaganda, with ample security but not legal tender nor redeemable in any special commodity, the monetary unit dollar will simply be a denominant. Its purchasing power will not be affected by a rise or fall in the price of any commodity any more than an order for a pound of butter commands more than a pound at one time and less at another. The Mutual Bank paper dollar will buy more butter at one time than another, but this will take place in consequence of the operation of supply and demand in regard to butter only; and so with regard to all other commodities; the Mutual Bank paper money will have no more effect on the price of commodities than the order for the butter will affect the price of butter, whereas when the monetary unit is a legal tender commodity dollar, variations in the price of any commodity are affected, not only by supply and demand in that particular commodity, but also "supply and demand" in the arbitrarily limited legal-tender-commodity-dollar, which limit enables a class to own and control it, the scarcity or abundance of which (dependent upon combinations among this class) must affect the

price of all other commodities. Under any system, therefore, which recognizes any special commodity as a legal tender basis for its paper money, especially as that commodity must necessarily be one that is limited by nature, fluctuations in prices become complicated by compound causes, resulting from the limitations to credit through this control of money. No such effect can occur under the Mutual System, the volume of money being unlimited except by the quantity of collateral offered and the rate of interest being the same to all borrowers. Of course it is not contemplated that this system shall remain as it must necessarily start, each bank independent of all the others, although any bank may remain so as long as it considers it to its interest to do so—but as the Mutual Bank is not a speculative institution, but rather an institution to defeat speculation, the system can best subserve this end by the banks becoming a general co-operative institution throughout the entire country, establishing headquarters and clearing-house at some central point. The association of all the mutual banks thus guaranteeing each individual bank, their bills would circulate as free from discount as do those of the National Banks. What objection then could a mutual bank have to join the National organization, since its purpose is to carry out generally what each mutual bank is established to accomplish locally, viz., the supply of an abundance of reliable exchange media.

The capitalists form trusts and combinations and seek protection in law. Repeal the law and their protection ceases. It is liberty, therefore, that affords protection to the people. Both are prompted by selfish motives, but if liberty prevails no monopolies can be possible, while at the same time there is opportunity to discover by experiment the best and most economical methods, a result not attainable where systems are established by law.

If there are those who think they can refute any of the arguments or ideas advanced, or conclusions arrived at in this work, we shall be most glad to hear from them, either through the press or by directly addressing the author. All such communications or published articles will receive careful consideration and be courteously answered.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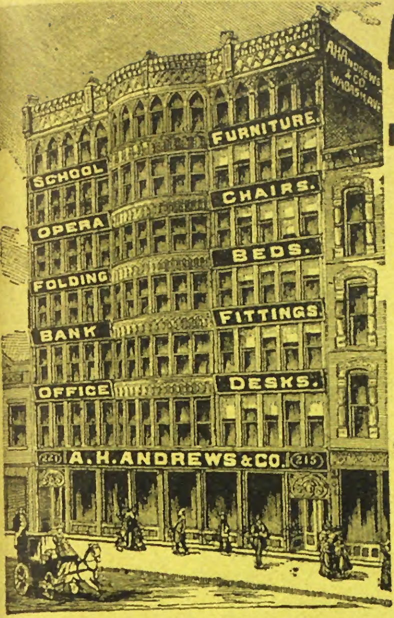

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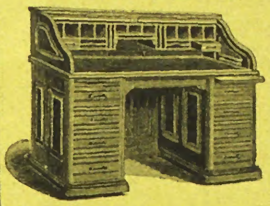

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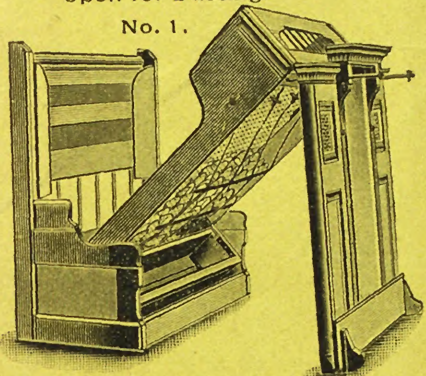

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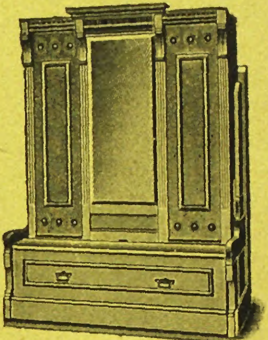

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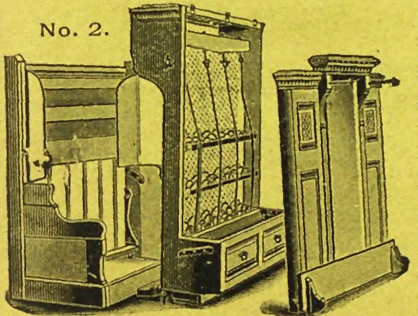

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